

**Request for Proposal-Scope of Work
Financial and Special Audit Services**

Please contact Kevin Shirah with any comments or questions regarding the draft scope of work at kshirah@lakeforestca.gov. Comments will be accepted through Tuesday June 21, 2016

The Scope of Work, as may be modified through negotiation and/or by written addendum issued by the City of Lake Forest ("City"), will be made a part of the Agreement. The contract performance period is based on a four-year term. The City shall have the option, at its sole discretion, to renew the Agreement for no more than two additional one-year terms.

The City is currently seeking the services of a qualified independent certified public accountant firm to provide audit services for the City and the Lake Forest Housing Authority (collectively, the City). The selected firm shall provide the required services to meet the City's audit needs and in accordance with all local, state, and federal laws and regulations. The auditor is required to provide a separate not-to-exceed flat fee for the annual audit, single audit, special audits, and optional services.

1. Information About Lake Forest Finances

The City is obligated to report the resources and activities for amounts held in trust for the benefit of individuals or other entities. The City is obligated to report the resources and activities of the Successor Agency in a separate private purpose trust fund. The City is obligated to report the resources and activities of the Other Post-Employment Benefits Trust and the Pension Rate Stabilization Trust in separate trust funds. The City uses agency funds to account for the collection and disbursement of funds for Orange County road construction program, the State of California Strong Motion Instrumentation Program, and the State of California Building Standards Commission's green building standards program.

There was no management letter issued for the fiscal year ended June 30, 2015. In addition, the City of Lake Forest does not have an audit committee.

2. Fund Structure

The City uses the fund types listed below in its financial reporting. Each governmental fund has a legally adopted budget conforming to GAAP. The City also adopts a two-year capital improvement program.

Fund Type	Number of Funds
General Funds	1
Special Revenue Funds	10
Capital Project Funds	6
Debt Service Funds	1
Internal Service Funds	1
Agency Funds	3
Trust Funds	3

3. Auditing Standards to be followed:

To meet the requirements of this RFP, the audit shall be conducted in accordance with the following audit standards:

- a. Auditing standards generally accepted in the United States of America, as promulgated by the American Institute of Certified Public Accountants (AICPA) or any successor body. Such standards must include specific requirements found in the AICPA audit guide, Audits of State and Local Governments.
- b. Government Auditing Standards, issued by the Comptroller General of the United States.
- c. The provisions of the Single Audit Act of 1996, as amended.
- d. The provisions of the U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.
- e. The provisions of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)
- f. Specific auditing standards relating to any grant agreement determined to be material by the auditors for purposes of the examination of the basic financial statements.
- g. Any other applicable standards for conducting examinations and/or reports to be issued in conjunction with those items outlined in this scope of work.

4. Schedule of Fieldwork

Upon receiving a Notice to Proceed from the City, the audit firm should contact Keith Neves, Deputy City Manager/Director of Finance to schedule an audit planning meeting (entrance conference). The auditors shall

provide a schedule for interim audit fieldwork and submit a detailed audit plan covering interim and final fieldwork dates, deadlines for issuance of draft and final reports, etc., prior to starting interim audit fieldwork. After interim fieldwork and prior to the beginning of final audit fieldwork a progress conference will be held and at the end of final fieldwork and exit conference will be held. Interim audit fieldwork must be completed between July 1 to August 15, 2017. Final fieldwork may commence on or after October 24, 2017.

Each year of the audit contract, an entrance conference, schedule of interim audit fieldwork and detailed audit plan must be held prior to commencement of interim audit fieldwork.

5. Annual Financial Audits

- 5.1. The auditors will perform an examination of the City's basic financial statements and required supplementary information (RSI) in accordance with the auditing standards outlined in Section 3 above, with the objective of expressing an opinion on each opinion unit of the financial statements that collectively comprise the basic financial statements. In addition, the auditors will express an "in-relation-to" opinion on the combining and individual nonmajor fund financial statements, including budgetary comparison schedules. Finally, the auditors will determine that information provided in the introductory and statistical sections of the City's CAFR conforms to amounts reported in the basic financial statements. The auditors will be responsible for rendering their opinion and provide the City one electronic copy in PDF format by December 20th and 1 photo ready copy by January 5th of each year.
- 5.2. The auditors will conduct an examination of the Lake Forest Housing Authority in accordance with the auditing standards outlined in Section 3 above. The auditors will be responsible for rendering their opinion and provide the City one electronic copy in PDF format by December 20th of each year and 10 bound copies by January 5th of each year.

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- 5.3. The auditors will conduct an examination of the Air Quality Improvement Special Revenue Fund in accordance with the auditing standards outlined in Section 3 above. The auditors will be responsible for rendering their opinion and provide the City one electronic copy in PDF format by December 20th of each year and 3 bound copies by January 5th of each year.
- 5.4. The auditors will conduct an examination of the Air Quality Improvement Special Revenue Fund in accordance with the auditing standards outlined in Section 3 above. The auditors will be responsible for rendering their opinion and provide the City one electronic copy in PDF format by December 20th of each year and 3 bound copies by January 5th of each year.
- 5.5. When applicable, the auditors will conduct an examination of the City's federal awards in conformance with the auditing standards outlined in Section 3 above. In addition to the audit of the federal awards, the auditor will review any materials included in the reporting package accompanying the data collection form. The City will prepare the Schedule of Expenditures of Federal Awards. The auditors will prepare the single audit report and provide one electronic copy in PDF format by December 20th and 10 bound copies by January 5th of each year. The auditors will complete the data collection form and required filing with the Federal Audit Clearinghouse and provide the City with one electronic copy in PDF format of the data collection form by January 20th of each year.
- 5.6. The auditors will perform agreed-upon procedures to test and report on the GANN appropriation limitation calculation. The auditors will be responsible for rendering their opinion and provide the City one electronic copy in PDF format by December 20th and 3 bound copies by January 5th of each year.

- 5.7. The auditors will perform agreed-upon procedures to test and report on the GANN appropriation limitation calculation. The auditors will be responsible for rendering their opinion and provide the City one electronic copy in PDF format by December 20th and 3 bound copies by January 5th of each year.
- 5.8. When applicable, the auditors will issue a “management letter” that includes significant deficiencies and material weaknesses (as defined by the applicable auditing standards) that were identified during the audit. Management letters should be addressed to the City Council and should include a follow-up on the prior year’s recommendations, if any. The auditors will provide the City one electronic copy in PDF format by December 20th and 3 stapled copies by January 5th of each year..
- 5.9. The auditors will issue a SAS 114 report addressed to the City Council at the conclusion of the audit. The auditors will provide the City one electronic copy in PDF format by December 20th and 3 bound copies by January 5th of each year. (A separate SAS 114 letter addressed to the City Council should be provided during the planning phase of the audit to open the “two-way communication” between the auditors and the City Council.)
- 5.10. The City has been a recipient of the GFOA Certificate of Achievement Award for Excellence in Financial Reporting since incorporation and plans to continue to participate in this program in the future. The auditors are expected to assist the City, as necessary, to meet the requirements of the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement in Financial Reporting Program.

- 5.11. The auditors are expected to keep the City informed of new state and national developments affecting governmental finance and reporting standards and trends, including upcoming GASB pronouncements and provide advice for extraordinary transactions. This shall include one formal updating session per fiscal year with selected members of the City's financial accounting staff. If there is a charge for this, the cost must be separately identified in the audit firm's cost proposal.
- 5.12. The auditors are expected to be responsive to questions or requests made by the City during the course of the contract period. An option for early termination of the contract may be exercised by the City for persistent non-responsiveness by the audit firm to City questions or requests or for failure to meet the deadlines established in the RFP.
- 5.13. The Engagement Partner may be expected to be present at the City Council meetings when the contract is being awarded or amended and when the annual reports and management letter are being presented (at the City Council or City Manager's request).
- 5.14. The auditors prepare all financial statements, including the CAFR, and the City provides information as requested. The auditors prepare GASB 34 entries and reconciliations.

For more information regarding the City's financial statements, the Lake Forest CAFR for the year ended June 30, 2015, is accessible at <http://www.lakeforestca.gov/554/Budgets-and-Financial-Statements>

6. Special Audits

The auditors will perform agreed-upon procedures to test and report on the compliance with various lease and franchise agreements and the Transient Occupancy Tax Ordinance. The auditors will be responsible for rendering their opinion and provide the City one electronic copy in PDF format for each report completed by December 20th of each year and 1 bound copy for each report completed by January 5th of each year. Special audits are performed on a rotational basis. On an annual basis, one lease/franchise

audit will be performed and 3-4 hotel audits. These schedules can be changed as necessary by the City. Special audits include:

A. Lake Forest Golf Center Lease Agreement Compliance Agreed-Upon Procedures

- a) Read and summarize the lease agreement to obtain an understanding of its requirements.
- b) Conduct interviews with employees of American Golf Corporation, operator of the Lake Forest Golf Center, to gain an understanding of the Golf Center's daily operations and financial reporting process.
- c) Document the Course's internal control procedures over cash receipting and green fees collections, calculation of lease payments to be remitted to the City, and preparation of the monthly lease payment remittance to the City.
- d) Agree each monthly lease payment remittance to monthly revenue reports. Verify mathematical accuracy of calculation on the remittance.
- e) On a sample basis (25 days per year), agree daily collection cash receipts to related weekly and monthly revenue reports, and to bank statements.
- f) Recalculate each lease payments, using appropriate tax rates. Compare to actual lease payments remitted to the City.
- g) Review each payment dates of the monthly remittance submitted to the City for timeliness and calculate any applicable late charges and penalties.
- h) Obtain a copy of audited financial statements and verify that the statements were submitted to the City within 90 days after the end of accounting year.
- i) Obtain a copy of the management letter, if any, and verify that the management letter was submitted to the City.
- j) Agree total revenue per the annual Federal income tax return to annual financial statements. Compare the total revenue per annual

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Federal income tax return to the revenue reported to the City on the remittances. Provide reconciliations for any variances.

- k) Inquire the management if there's any permanent improvements completed during the two years under review. For any permanent improvements completed, obtain an itemized statement of the actual construction of such improvement, and the statement of costs shall be sworn to and signed by Lessee or its responsible agent under penalty of perjury. In addition, obtain a listing of all individual invoices for the improvements, and agree the listing total to the statement of costs.
- l) Determine any underpayments or overpayments that may have occurred and calculate the related liability, if any.
- m) Prepare a report noting findings and include a summary of financial results from all procedures performed.

B. Refuse Hauler Franchise Agreement Compliance-Agreed-Upon Procedures

- a. Read and summarize the franchise agreement to obtain an understanding of its requirements. Provide the City a summary of the business points of the agreement.
- b. Conduct interviews with management staff who are involved in the oversight and management of the billing operation used in billing residents of the City. Develop an understanding of the billing practices and procedures. Provide the City with a narrative summarizing the process.
- c. Inspect billing and receipt records used to substantiate franchise payments to the City. Summarize the franchise fee information for the past two calendar years and note any inconsistencies.
- d. Note whether refuse hauler has substantively fulfilled its financial obligations in regards to its franchise agreement with the City and determine that they adhere to the general parameters of the franchise agreement in delivering refuse hauling services.
- e. Inspect the refuse hauler's compiled financial reports and source records that substantiate their operations as they pertain to serving the City.

- f. Prepare a report noting findings, recommendations and conclusions.
- C. Transient Occupancy Tax (TOT) Compliance Agreed-Upon Procedures
- a. Verify the mathematical accuracy of the monthly TOT returns filed with the City for the calendar year selected.
 - b. Agree the tax rate used in calculating the TOT in the monthly TOT Returns prepared for the calendar year to the tax rate stated in the Lake Forest Municipal Code Chapter 3.25, Transient Occupancy Tax.
 - c. Compare the rental revenues from the TOT Returns to the Hotel's monthly revenue summaries used by the Hotel for the selected calendar year.
 - d. Select a sample to test for the period covering the selected calendar year. For each of the days tested, total the daily guest room revenue reports and agree the total to the monthly summary.
 - e. Compare reconciliation of all bank deposits per the bank statements to reported revenues in the monthly TOT returns from the Hotel for the selected calendar year.
 - f. Select a sample of tax-exempt guests covering the period of the selected calendar year. For each of these guests, verify that the exemption complies with the Lake Forest Municipal Code Chapter 3.25 Transient Occupancy Tax. Agree one day's exempt room revenue from the daily room revenue report to the monthly summary.
 - g. Compare the dates the monthly TOT returns and payments were received by the City to the due date stated in the Lake Forest Municipal Code Chapter 3.25, Transient Occupancy Tax.
 - h. Compare annual revenue per the monthly summaries to the federal income tax return or to corporate reporting records for the selected calendar year.
 - i. Prepare a report for each hotel establishment noting findings, recommendations and conclusions.

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a. Optional Services

a. The auditors may complete the City's annual Street Report and electronically file it with the State Controller's Office no later than the statutory submission deadline of each year.

b. The auditors may complete the annual Cities Financial Transactions Report and electronically file it with the State Controller's Office no later than the statutory submission deadline of each year.

c. The auditors may complete the Rancho Cañada Financing Authority annual Special District's Financial Transactions Report and electronically file it with the State Controller's Office no later than the statutory submission deadline each year.

7. Retention and Access to Working Papers

All working papers and reports must be retained, at the auditor's expense, for a minimum of five (5) years, unless the firm is notified in writing by the City of the need to extend the retention period. Should standard retention periods required by any of the standards identified in Section 3 above be increased beyond 5 years, the increased retention period shall be followed. The auditor will be required to make working papers available, upon request by the City or its designees.

The auditor shall respond to reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

8. Irregularities and Illegal Acts

The auditors shall be required to make an immediate written report of all irregularities and illegal acts or indicators of illegal act of which they become aware to the; Mayor, City Manager, Assistant City Manager, and the Deputy City Manager/Director of Finance.

9. Subcontracting

Should any firm submitting a proposal consider subcontracting portions of the engagement, that fact must be clearly identified in the proposal along with the name of the proposed subcontractor. Following the award of the audit contract, no additional subcontracting will be allowed without the prior written consent of the Director of Finance